a Eurochambres production

THE GOOD THE BAD AND THE UGLY

of the 2019-2024 EU Term

Starring:
European Commission
European Parliament
Council of the EU

The Good

The Once-Only Technical System (OOTS)

Why good? Thanks to this initiative, public administrations will – if implemented swiftly – be able soon to share information across borders, streamlining a series of administrative procedures and allowing companies to request or submit official documents only once online, valid across the EU.

Setting up single market offices in each member state

Why good? The establishment of dedicated European single market offices in each member state to address single market barriers is currently underway and could allow the business community to have a stronger voice within the national decision-making process.

Internal Market Emergency and Resilience Act (IMERA)

Why good? Actions such as the joint purchase of medical supplies should be highlighted as a success story in the response to the pandemic. In this sense, IMERA aims to ensure the stability and resilience of the internal market during critical moments and mitigate the possible challenges for the free movement of goods, services and people. Relevant businesses are encouraged to anticipate and prepare for crises on a voluntary basis.

Head Office Tax System for SMEs (HOT)[1]

Why good? The proposal for a Head office tax system has the potential to reduce compliance costs for SMEs operating in more than one member state. SMEs operating cross-border through permanent establishments will have the option to interact with only one tax administration – that of their Head Office – instead of having to comply with multiple tax systems. This will promote cross-border activities and encourage SMEs to grow.

Conclusion of trade agreements with Chile, Kenya and New Zealand

Why good? The conclusion of the trade agreement with New Zealand, Kenya and the modernization of the agreement with Chile are important steps to secure the diversification of European supply chains. It will boost bilateral trade significantly with our partners, saving millions in customs duties every year and helping European business secure access to critical raw materials essential to the green transition, such as lithium.

[1] Ongoing technical examination of the proposal in the Council

Enlargement, back on the EU agenda

Why good? After a decade of stagnation, Russia's unprovoked invasion of Ukraine has given a new impetus to EU enlargement. Ukraine, Moldova and Georgia have been included in the process, and the New Growth Plan for the Western Balkans should encourage reforms in the region. The European business community sees mainly positive economic impacts from an enlarged EU.

Digital Markets Act

Why good? The DMA aims to strengthen the internet as a fair, transparent and free marketplace for companies and consumers alike. It seeks to ensure a higher degree of competition in European digital markets by preventing large companies from abusing their market power and by allowing new players to enter the market. In addition to providing enhanced market access, SMEs benefit from increased innovation opportunities and improved transparency through the DMA. Care must be taken to ensure that the rules are applied with legal certainty and in an appropriate and practicable manner.

Net Zero Industry Act

Why good? The NZIA aims to strengthen European manufacturing capacity of net-zero technologies and overcome barriers to scaling up this capacity. These efforts are commendable, as streamlined and efficient permit-granting processes can attract more investments in key technologies for successful decarbonisation. However, such measures are necessary for the entire economy and all branches to ensure technology neutrality and enhance the overarching European competitiveness. The NZIA, therefore needs to be followed up with a broader prioritisation of competitiveness in European policymaking, to stimulate the investments required to transition the entire economy towards net zero.

Critical Raw Materials Act

Why good? The new CRMA is a step towards enhancing the security of supply of critical raw materials, with demand rising as the transition to a low carbon economy continues. The acceleration and de-bureaucratization of strategic projects for the sourcing of raw materials both in the EU and resource rich third countries is welcome in achieving affordable and reliable sources of supply in the future. However, any administrative burdens for companies from CRMA reporting obligations should be minimized and possible gold plating by member states avoided to prevent more and diverging requirements across the EU. It is furthermore essential that companies' supply chain adjustments remain entrepreneurial decisions.

Industrial Strategy

Why good? The objectives of the Industrial Strategy, published in 2020 and reviewed in 2021 in light of the pandemic, remain valid today. European industrial policy should aim to reduce single market barriers and strengthen the competitiveness of the European industrial base by deploying the necessary infrastructure, striving to create open markets worldwide, accelerate permitting procedures, and promoting innovation and excellence in research. Future actions should aim to address the needs of existing industrial ecosystems to accommodate sustainability and competitiveness priorities and put SMEs at the centre of the strategy for industrial transformation. This framework must encourage private investment, creating new products and services, markets and business models, and new profiles and jobs.

European Year of Skills

Why good? The initiative originated from the demands and prospects emerging in the labour market due to the digital and green transitions, necessitating the development of new skills among workers. Prioritizing skills and implementing measures to address labour and skills shortages are a crucial step. The European Year of Skills put the spotlight on the need to increase investment in training and upskilling opportunities to ensure that workers possess the required skills for the labour market, including digital skills.

AI Act

Why good? A world first in regulating artificial intelligence, the AI Act addresses risks, positions Europe to play a leading role globally, and establishes a precedent for responsible AI governance in the digital era. While the regulation appears to be SME-friendly, innovation-friendly, and application-oriented, it is crucial to ensure legal clarity and consistency in its implementation and to provide guidelines for compliance.

The Bad

Corporate Sustainability Due Diligence Directive

Why bad? A poorly designed initiative that imposes a substantial administrative burden on companies, as well as legal uncertainty and liability risks. Despite the support of the co-legislators, the agreed text burdens companies with detailed due diligence requirements vis-a-vis direct and indirect business partners throughout the value chain and introduces civil liability provisions. Member states have the scope to go beyond the minimum requirements stated in the directive as only some segments are harmonised, depriving European businesses of a level playing field.

Product Liability Directive

Why bad? The reform of liability rules for the first time in almost 40 years represents a major shakeup since it expands the scope of claims that can be brought against businesses and the range of potential damages available to plaintiffs. Modernising the product liability framework to account for new technological advances should not come at the expense of obliging the trader to disprove possible product defects, limiting innovation, or allowing frivolous claims to be launched against companies.

Proposal for a Regulation on Combating Late Payment[2]

Why bad? The revision of Directive 2011/7/EU on combating late payment in commercial transactions proposes a one-size-fits-all approach with a top-down imposition of strict caps on payment terms. This will not combat late payments and risks adding unnecessary complexity and bureaucracy, compared to the current directive. Contractual freedom, a key principle of the business environment and its multi-faceted ecosystems, is de facto restricted. The creation of enforcement authorities equipped with investigative and sanctioning powers is also unwelcome and attention should instead focus on improving the effectiveness of court proceedings in all member states.

Corporate Sustainability Reporting Directive / European Sustainability Reporting Standards

Why bad? Companies subject to the CSRD must prepare very extensive reports according to the ESRS. The ESRS overburden not only large non-listed companies that have to prepare to fill out a sustainability report for the very first time, but also large listed companies that already have experience in reporting. Moreover, the obligation also concerns businesses within the value-chain of obliged larger companies (trickle-down effect). The CSRD/ESRS regime results in being an excessively detailed, prescriptive, or burdensome compliance and information overloaded regime, without offering benefits like easier access to financing.

Incomplete EU Trade Agenda

Why bad? While some EU trade agreements were concluded and ratified during this term, other very important agreements, such as those with Australia and Mercosur, failed to materialize. In a context of economic deceleration and the needed supply chain diversification, this weighs heavily on European business prospects. With 90% of growth emanating outside the EU in the coming years, it is critical that the EU secures effective international market access for European companies.

Net Zero Industry Academies

Why bad? While Net Zero Industry Academies aim to disseminate central expertise and learning content to address the challenge in the field of net-zero technologies, their parallel establishment alongside existing vocational training systems in member states overlooks the diversity of national education frameworks.

[2] Awaiting Council's 1st reading position

The Ugly

Fragmentation of the single market

Why ugly? More than 30 years after its official creation, the single market is far from complete and companies continue to face a variety of obstacles. Most worryingly, the internal market is now in danger of being suffocated by overregulation and political guidelines that contradict each other in parts. Technical barriers to cross-border trade are increasing, regulatory convergence seems to have stalled, and the lack of effective and consistent enforcement of EU law is of concern to the chamber network. A renewed focus on legal certainty, the rule of law and free competition will attract investment and innovation in the single market.

EU regulatory environment

Why ugly? The enormous pressure caused by the fast paced, excessive, and at times incoherent legislation put forward over the 2019-2024 EU mandate cannot be overlooked. The growing cumulative burden on European businesses needs to be tackled urgently. No positive impact has been perceived by entrepreneurs from the announced 25% reduction in business reporting obligations, or the application of the ‘one in, one out’ principle. A benchmark of the ‘100%’ is necessary, based on an inventory of existing reporting obligations, if the 25% reduction exercise is to be substantive and impactful.

Lack of progress on the Capital Markets Union

Why ugly? The 2021 Capital Markets Union package does not provide the necessary conditions to unlock financing for the green and digital transitions and create a truly single market for capital across the EU. Financial market regulation must at the same time take the issue of capital market orientation into account much more than it has to date and not force SMEs towards the capital market.

EU SME Envoy (dis)appointment

Why ugly? SMEs have been struggling with unprecedented crises over the last five years, while facing an increasingly complex and burdensome regulatory environment. This is why championing the concerns of SMEs across the Commission should have been a top priority for the Commission. Instead, the announcement of an EU SME Envoy by President von der Leyen at the beginning of the legislative term was not followed up on concretely and – after some false dawns - we remain without an appointment of this key figure.

Patchy application of the SME Test

Why ugly? The application of the SME Test is pivotal to ensuring an SME-proofed EU regulatory regime and this tool must be used systematically and consistently to prove effective. Building on the rationale of the 'think small first' principle, the Commission services should guarantee the involvement of SMEs and SME stakeholders in the consultative process. All the policy options considered in the impact assessments must delve into the potential impact on SMEs, according to costs and/or benefits analyses. This is not systematically the case, as the impact on SMEs is often measured only for the preferred policy options. Moreover, the expected impact of legislation should be dynamically monitored throughout the legislative process as information on costs become available[3].

Imbalanced climate policy

Why ugly? While chambers support the EU's goal of climate neutrality by 2050, the outgoing Commission's strategy to achieve this has led to an imbalance, placing the European economy at a global disadvantage. The threat of recession in major European economies is now more tangible, with data suggesting that the Eurozone is falling behind its global competitors. The EU Green Deal, aimed at combining climate neutrality with prosperity and growth, is overburdening businesses with excessive regulatory requirements. Enabling companies to achieve their individual climate neutrality must become a priority, for example, by providing the energy infrastructure needed and access to finance for technology open transformation investments, and by reducing red tape.

The funding paradox of skills development policies

Why ugly? Although there has never been so much money available for skills (European Social Fund Plus, Recovery and Resilience Facility, among others) the perception from businesses, and especially SMEs, remains that funding opportunities are either not sufficiently accessible or publicised, or too cumbersome and complex to be fully exploited.

While labour and skills shortages continue to rank among the top concerns of European businesses, tackling the skills gap and mismatch is crucial to ensure their resilience and competitiveness. Access to funding in relation to this challenge is all the more crucial for SMEs, which often struggle more than big companies to find people with the right skills and are confronted by additional hurdles when it comes to accessing funding opportunities and financial incentives available to cover training costs[4].

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[3] More information in our assessment of the application of the SME Test with BusinessEurope and SMEunited: [2022 SME Test Benchmark report]: [2022 SME Test Benchmark report]

[4] During the November 2023 European Parliament of Enterprises™, gathering over 700 European entrepreneurs, 90% of participants replied that insufficient progress was being made on funding and support for upskilling/reskilling.

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